Why is finance management so important for business?

Financial management is not done to keep tracks of the business expenditure. It is mainly done so that the company doesn’t over spend and be prepared for all expenses as well as profit distributions. It is said that a company that has good business but has poor financial management will fail.

Financial Management is important because:

- ### It helps setting goals clearly

Clarity of the goal is very important for any firm. Financial management defines the goal of the firm in clear term. Setting goal helps to evaluate whether or not the selections taken are within the best interest of the shareholders or not. Financial management conjointly directs the efforts of all useful areas of business towards achieving the goal.

- ### Helps efficiently utilize resources

The application of financial management techniques helps to answer queries like which asset to buy, when to buy and whether or not to exchange the present asset with new one or not.

The firm also needs current assets for its operation. They absorb important quantity of a firm's resources. Excess holdings of these assets mean inefficient use and inadequate holding which exposes the firm into higher risk. Therefore, maintaining proper balance of those assets and funding them from correct sources is a challenge to a firm. Financial management helps to make a decision what level of current assets is to be maintained in a firm and the way to finance them in order that these assets are used efficiently.

- Helps a firm deciding sources of financing

Firms collect long-term funds primarily for getting permanent assets. The sources of long run finance could also be

- Equity shares
- Stock
- Bond
- Term loan and more

The firm has to decide the suitable mixture of these sources and amount of long-term funds; otherwise the firm will need to bear higher price and expose to higher risk. Financial management guides in choosing these sources of financing.

- Helps in making dividend decision

Dividend is the return to the shareholders. The firm isn't lawfully duty-bound to pay dividend to the shareholders. However, what proportion to pay out of the earning is a very important issue. Financial management helps a firm to make a decision how much to pay as dividend and how much to retain within the firm. It additionally suggests responsive queries such as when and in what type should the dividend be paid.